PEOPLE *in the news*

Bank of New England Lured Wheeler from a Happy Spot

By TOM LEANDER

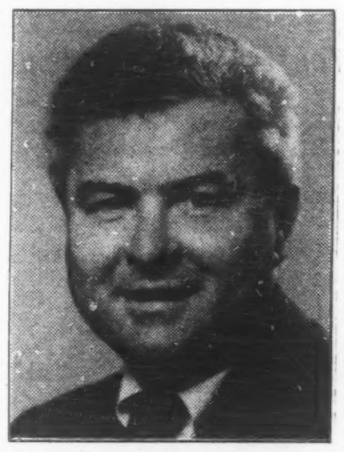
When Lawrence K. Fish, chairman of the Bank of New England, phoned D. Bruce Wheeler last month and offered him a job as president of the ailing company's flagship subsidiary, the timing couldn't have been worse.

"I'd never been happier at my job, never been happier about where I lived," Mr. Wheeler recalls. "The timing was awful."

Six months earlier, he had become head of the banking division of First Nationwide Bank, the San Francisco-based thrift subsidiary of Ford Motor Co.

But last week, after some diplomatic arm-twisting, he decided to join the team Mr. Fish's has hand-picked to turn around one of the nation's most troubled banking companies.

Mr. Wheeler, 43, is replacing Leo R. Breitman, who steps into the newly created post of senior credit policy officer.



D. Bruce Wheeler

Mr. Wheeler said he accepted the job only after careful study of Mr. Fish's plan to restructure the company. Eventually, he came to see the turnaround plan as "aggressive, definitely do-able."

Mr. Wheeler's job is to convert the lead subsidiary, Boston-based Bank of New England NA, from its focus on commercial real estate and business lending to retail banking and middle market lending. The bank is currently operating under a regulatory restriction known as a cease-and-desist order.

The parent company began its dizzying fall in late 1989 and posted a $1.1 billion loss for the year, followed by a $46 million loss in the first quarter.

Since Mr. Fish stepped in as chairman in March, he has assembled an eclectic squad to revive the ailing institution. Among them is R.T. McNamar, a former deputy Treasury secretary, who is vice chairman and head of investor relations; and Kent Price, the former head of Citicorp's United Kingdom operations, as chief financial officer.

Mr. Wheeler, too, is an eclectic banker. He found his way into banking after a long fling with academia – he earned a bachelor's degree in social anthropology at Harvard and a master's in history at the University of Chicago – and he taught high school for three years in Chicago.

Then he joined First Chicago Corp. and enrolled in its First Scholars program, studying at the University of Chicago for two years at night while he worked in a rotational management training program by day.

After he earned the degree, he joined First Chicago's international unit in Edinburgh, and then went to London to ply his trade at a correspondent bank.

Next, Crocker National Bank tapped him, and he moved to Thailand, then to San Francisco, where he met his wife, Dale.

In 1982, Mr. Wheeler joined Bank of Boston, where he became the head of its Massachusetts banking operations.

It was at Bank of Boston that he met Mr. Fish, then head of the bank's New England division. The pair had a hand in company's restructuring into five divisions in 1985.

"We dissected the company, divided the company," Mr. Wheeler recalls, "and redid the management reporting system. We turned it into a return-on-equity driven bank." □

NEWS *briefs*

Citibank, MCI to Use Visa as Calling Card

NEW YORK — Citibank, the largest issuer of bank credit cards, is allowing its customers' Visa cards to be used as calling cards on MCI Communications Corp.'s long-distance network. The offer comes three months after AT&T launched the Universal Card, a general-purpose credit and calling card.

Citibank's 14.6 million Visa customers will be charged long-distance rates 22% less than AT&T's standard calling card tariffs when they use MCI, the bank said. The AT&T Universal card offers a 10% discount on long-distance calling-card rates.

The program is being offered under VisaPhone, an initiative launched by Visa International and MCI last year. Citibank expects to extend the service soon to MasterCard customers.

Panama Seeks Aid from Western Governments

LONDON — Panama is seeking $540 million in aid from Western governments to pay its debt arrears to international financial institutions, Vice President Ricardo Arias Calderon said in a telephone interview.

Mr. Arias, touring Europe to encourage economic cooperation with Panama and to seek financial aid, said, "I think it is very important that we transmit the new political situation. . .that the emerging functional democracy is past its worst political crisis."

Panama wants aid to cover its arrears. — **Reuters**

Consumerists Call Bank Fees High

By LOUIS GERHARDSTEIN

WASHINGTON — Climbing consumer bank fees coupled with a bewildering menu of services and pricing options continue to deprive low- and moderate-income people of banking services, a consumer advocacy group asserted Tuesday.

Citing its sixth annual survey of banking services, the Consumer Federation of America put the annual cost of an average noninterest-bearing checking account at $107.98 and the average interest-bearing NOW account at $111.39.

Since 1983, the federation said, costs for NOW accounts have risen 62.3% and regular checking accounts have risen 28%. Over the same period, the survey said, interest rates earned on NOW accounts have remained at around 5%.

The consumer group's legislative representative, Peggy Miller, said low- and moderate-income depositors who cannot maintain minimum balances are being squeezed out of the market.

"What we're seeing here is about one-half of all consumers face fees one way or another," Ms. Miller said. She added that the competition that has resulted from deregulation has benefited only the more affluent consumer with enough money to invest in higher-yielding products such as certificates of deposit.

The American Bankers Association challenged the Consumer Federation's findings as "unreasonable," and cited its own study that 59% of banks in 1989 offered basic banking services with low or nonexistent minimum balance requirements and no per-item fees for at least a limited number of checks.

The Consumer Federation study "is by no means representative of the banks out there," an ABA spokeswoman said Tuesday. "In some markets, you'll have to shop hard, but overall those [basic banking] choices are available."

Defends Bounced-Check Fees

The ABA also criticized CFA for including in its yearly checking account costs the price charged for two bounced checks, which would average $30 at the 170 institutions in 16 states monitored by the consumer group. Bad checks "should be the exception, not the norm," the ABA spokeswoman said.

Checking Account Fees Differ by Region

States ranked by monthly fees for basic checking

Expensive	Average fee per month	Per check
Kansas	$7.29	NA
New Jersey	6.56	NA
Virginia	6.07	NA
Arizona	5.56	35¢
California	5.22	32¢

Inexpensive	Average fee per month	Per check
North Carolina	$3.17	30¢
Rhode Island	3.30	40¢
Ohio	3.50	25¢
Michigan	3.77	40¢
Wisconsin	4.72	35¢

Source: Consumer Federation of America survey of 16 states

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Trump's Banks Seal Credit Pact With a $20 Million Bridge Loan

By WILLIAM GOODWIN

Donald Trump's bankers agreed Tuesday to a $65 million credit pact for the troubled developer.

As part of the agreement, the banks gave Mr. Trump a $20 million bridge loan, pending completion of documentation on the broader credit pact, which also includes deferral of interest payments on some of Mr. Trump's existing $2 billion of bank debt.

The $20 million bridge loan was funded at 4 p.m. Tuesday, according to a spokeswoman for Citibank, one of Mr. Trump's principal banks. She said the bridge loan was funded after the entire Trump bank group agreed to the underlying credit pact. The bridge loan will be repaid out of the $65 million.

However, it remained unclear whether Dresdner Bank, one of the last holdouts, had signed on to the deal.

A banking source said earlier in the day that the pact could be concluded without Dresdner. At the same time, this source said Dresdner's loan portion hadn't been bought out by other banks.

The $20 million bridge loan was needed after it became clear that the banks were not going to agree on the broader credit pact in time for Mr. Trump to make overdue interest payments on the casino bonds.

Tuesday was the deadline for curing the default. □

Amplification

The artist's credit for the drawing on Tuesday's page 1 was inadvertently omitted. The artist was Niculae Asciu.

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COMMENT / *By Irvine Sprague*

FDIC Must Ask Fair Price For Its Stake in Continental

WASHINGTON — Continental Illinois is again in the news because public ownership of a control block of stock is in dispute. Gratitude and greed are the two words that come to mind as we recall the unprecedented bailout of the colossus of the Midwest. Unfortunately, greed is the dominant word.

Recently, Tom Theobald, chairman of Continental Bank, as it is now called, told *The Wall Street Journal* that he was "dumbfounded" that the FDIC had passed up "two legitimate opportunities" to sell its interest in Continental.

What bugged Theobald was that the FDIC board turned down his request for a sweetheart deal. Theobald's group offered to pay just over $15 a share on a day the stock was trading for $17.

The FDIC currently holds 26.3% of the Continental stock, a control block that should bring a premium, not a discount.

Mr. Sprague served as chairman or director of the Federal Deposit Insurance Corp. for more than 11 years, during which time he handled 374 bank failures. He is the author of the book "Bailout: An Insider's Account of Bank Failures and Rescues" and frequently speaks before banking groups.

Played Role in Bailout

This was not the first time that Theobald was dumbfounded in dealing with the FDIC over Continental, and it probably will not be the last.

Remember, it was Theobald, then at Citibank, who delayed the Continental bailout in 1984, in a futile attempt to ensure that Citibank could suffer no loss but at the same time would get public credit for assisting in the rescue.

Theobald's argument, like that of some of the people at the Fed today, is that public ownership of Continental should not be continued by a regulator. I agree – but, heaven forbid, not at the expense of giving a donation to an investor group.

The FDIC engaged the Wall Street firm of Smith Barney, Harris Upham & Co. to advise on the disposition of the stock. After a presentation by the firm, the FDIC board unanimously turned down the three-way deal offered by Theobald and other

"The FDIC currently holds 26.3% of the Continental stock, a control block that should bring a premium, not a discount."

Continental executives, the bank itself, and a group of well-heeled outside investors.

Then the FDIC announced that it is committed "to realizing full value for its holdings and will explore all options for divesting its ownership in the company."

Divestiture Is Timely

Actually, the divestiture is right on schedule. Let's turn back the clock.

In 1984, when Continental failed, the bank was nationalized so that it could keep its doors open. The FDIC led a rescue that totaled over $14 billion and included cash from the FDIC, enthusiastic support and advances from the Fed, and a commitment for safety-net loans by most of the nation's largest banks. When the books are finally balanced, they are expected to show a $1.5 billion loss, all charged to the FDIC.

The Continental plan was patterned after the successful First Pennsylvania bailout four years earlier. We pledged financial support through a public statement that we would not allow the bank to close its doors. Stockholders would lose, but all depositors and creditors would be made whole.

During tense negotiations that May, the bankers all agreed, except Citibank. Finally, Bill Isaac and I decided to ignore the banks. We held a stand-up board meeting in our New York office, appropriated $2 billion, told the press the bank was saved, and left for Washington. Todd Conover provided the third vote for a unanimous decision.

Stalemate Is Broken

We left the bankers just sitting there. After we left, Fed Chairman Paul Volcker called Theobald's boss at the time, Citicorp's Walter Wriston, in San Francisco, and the stalemate

See **COMMENT** *page* **9**

GRAPEVINE / *By Jed Horowitz*

Still Fishing. Though Banks of Iowa lost its oldest suitor when Minnesota's First Banks System called off a long-planned acquisition last week, others are waiting in line.

"I think I could name four or five parties that are seriously interested, including other bank holding companies within the Iowa [interstate] region," said Holmes Foster, chairman of $2.6 billion-asset Banks of Iowa. He quickly added that no direct offers have been made, though a well-placed source said "direct conversations" have occurred.

Several sources said Boatmen's Bancshares of St. Louis is a likely bidder, despite its recent digestion of its crosstown rival, Centerre Bancorp. They also speculated that at least one of Wisconsin's two largest companies — Marshall & Ilsley Corp. and Firststar Corp. — may be interested. The three banks are among the few within Iowa's interstate region large enough to acquire Banks of Iowa, Mr. Foster acknowledged. He added that some private investors also might be interested.

Officials at the banks would not comment.

Des Moines-based Banks of Iowa is unlikely to receive a cash offer, particularly one as attractive as the deal with First Bank, which dropped out because of capital constraints, Mr. Foster said. But "it's within the realm of possiblity that we can do a stock exchange on a book-and-a-half basis, which could be even a better deal because of tax ramifications," he said. Book value at the end of the first quarter was $62.15 a share.

* * *

A Yen for New Jersey. Bankers Trust New York Co. is seeking approval from the Federal Reserve Board to set up a trust company in New Jersey. The bank, which manages $105 billion of funds for public and private clients worldwide, is excluded from acting as an investment manager or custodian for the Garden State's public pension funds because it does not own an incorporated trust company in the state, a spokesman said.

BT New Jersey Ltd. is expected to begin operations late this summer, he said. It will be staffed initally with about 60 people now working at BTNY Services, the New Jersey-based operations center for Bankers Trust's trust department. The unit will be capitalized at $4 million and run by BTNY's senior manager, Jay Wilder, who will be president.

* * *

Morgan Unmoored? In its continuing drive to slash overhead costs, J.P. Morgan & Co. is easing more veterans into early retirement and is reorganizing businesses. It also may close some offices, particularly in Asia, where it is overstaffed, sources said.

Among the latest unannounced or planned departures, according to sources, are these 20-year Morgan veterans:

- Michael Stephen, the long-time head of the bank's representative office in the Philippines and overseer of its 20.4% stake in the Bank of the Philippine Islands.
- Michael Cleary, another 20-year Morganite who was a senior officer in Australia.
- Philip Murray, head of lending at Morgan Bank Delaware.
- William Holding, who was in charge of relationships with the U.S. subsidiaries of European corporations.

Mr. Murray, for one, is not being replaced.

Morgan last year laid out plans to cut 10% of its staff by the end of 1990. At the end of the first quarter it employed 13,900 people; some sources believe it hopes to reach 13,000 by year's end.

Many old-timers are nervous, noting that most executives who have left recently are in their late 40s or their 50s. A Morgan official said the company does not comment on employment policies or individuals.

Meanwhile, the head of Morgan's fledgling high-yield department is in line to expand his duties and perhaps move into a higher position, sources said.

Ramon deOliveira, a managing director, will soon gain control of both private placements and structured finance, areas J.P. Morgan Securities recently moved into, the sources said.

Mr. deOliveira said no final decision on the transfer had been made.

Neither Morgan nor other banks eager to break into high-yield — notably Bankers Trust and Citicorp — have underwritten a junk deal in the present moribund market.

But Mr. Oliveira said his unit is "looking at" placing a number of high-yield issues with registration rights in the private market.

* * *

Come to Sunny Arizona. Investment bankers specializing in bank mergers and acquisitions were chuckling last week over an unsolicited letter from F. Lee Jacquette, chairman of Arizona Commerce Bank.

He candidly laid out the problems of his $80 million-asset company: insufficient capital, a May cease-and-desist accord with regulators, a high volume of troubled loans, and Arizona's troubled real estate market.

The bank boasts a highly professional staff and a realistic business plan, he added. "Do you have any ideas for us?"

Mr. Jacquette said in a phone interview that he does not expect much response to his letter, which was sent to investment bankers culled from a list in *U.S. Banker magazine*. "We have a high-risk proposition for a high roller who wants to get into Arizona at this time," he said. "We need patient investors with reasonable expectations."

Mr. Jacquette says he arrived at the five-year-old bank last summer with "unrealistic expectations." About 18% of its $55 million loan portfolio is on a nonaccrual basis or in its foreclosed loan portfolio. The original plan to build a statewide branch network and then sell at twice book value to an out-of-state investor was conceived "in a different world than today," he concedes.

Arizona Commerce, which went public at $10.75 per share, is now trading on the American Stock Exchange at 25 cents per share. Its largest shareholder is the Resolution Trust Corp., which took over a thrift that seized the shares of the bank's now-bankrupt founder and former chairman, Ernest Garcia.

Arizona Commerce has three branches, down from eight, and 48 employees. Mr. Jacquette said it must double its regulatory capital of $5 million and needs at least $2 million by December to satisfy regulators. "We're in a midget in the land of giants," he conceded. "It's an uphill battle." □

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Chemical Launches NY Grants Program

NEW YORK - Chemical Bank has launched a "Competitive Grants Program" to recognize the services provided by not-for-profit organizations serving the New York region.

Grant amounts range from $500 to $15,000. The size and experience of the receiving organization and how the funds will be used will help determine the amount of the award.

Application guidelines can be obtained at any of Chemical's 200 branches; the deadline for submissions is July 27.

COMMENT

Continued from *page* 4

was broken. Before the day was out, Citibank joined all of the other banks in purchasing one-fourth of our investment, but they weren't really at risk anyway. We weren't going to let the bank close.

It took until September to wrap up the details, but when all the papers were signed the FDIC owned 80% of Continental and would pick up more at the end of five years unless the return from sale of bad assets was spectacularly successful. It wasn't.

The FDIC still holds $900 million book value in assets, and it will take years to complete the disposition. (In the San Francisco National case, the last asset was sold more than 20 years after the failure.)

Hunky-Dory for Continental

Meanwhile, Continental was a sure winner. It was highly capitalized, and the books were clean. The FDIC held all its junk.

Our plan from day one was to return the bank to private hands. This could not be completed for at least five years while we waited for final accounting on the asset loss. This occurred just nine months ago, and the FDIC picked up an additional 10 million shares at that time. Under the contract provisions, we expected it might take a few years after that for an orderly sale of our remaining stock.

Meanwhile, periodic sales were made: 12.5 million shares in November 1986 for $247 million; 13.8 million shares in December 1988 for $ 277 million; and nine million common and 12.9 preferred shares in August 1989 for $490 million.

A Model Bailout

Roger Watson, chief of research at the FDIC, called Continental the second most successful bailout after First Pennsylvania. I was particularly proud of the First Pennsylvania deal that I negotiated as FDIC chairman. We kept the bank open, made a modest profit in the process, and had a test run on how to conduct a successful rescue.

While on the subject of big bank bailouts, let me remind you of the grievous injustice in the FDIC assessment rules that give the handful of "too big to fail" banks a free ride at the expense of the thousands of community banks that pay full assessments and thus in effect are subsidizing the giants. The issue, of course, is payment of assessment on foreign deposits and depositlike instruments that are fully protected in a bailout. □

Consumer Group Says Bank Services Too Costly

Continued from *page* 2

One banker said assertions made by the consumer advocates and the banking association may not be entirely inconsistent.

"They are probably both right," said P. Andrew Will, manager of consumer products for Minneapolis-based Norwest Corp.

Many low-income people do not keep deposits with banks, Mr. Will said, but "a high percentage don't hold accounts for reasons other than price." Mr. Will cited a study by the Minnesota Bankers Association that showed a majority of consumers who lack checking accounts prefer keeping cash, said bank locations are convenient, or simply do not like banks.

Since 1983, the federation said, costs for NOW accounts have risen 62.3% and regular checking accounts have risen 28%.

Lifeline at Norwest

Norwest affiliates in the Midwest offer an account with no minimum balance, no fees, up to eight free checks per month, and free ATM transactions, Mr. Will said. "If we are any indication, free or low-cost banking services are readily available," he said.

Deregulation has increased prices but also has provided consumers with wider choices, suggested Cynthia Glassman, director of research for the financial services consulting firm Furash & Co. "Before, when people thought they were getting something for free, they were really being subsidized by the interest ceilings," Ms. Glassman said.

Sen. Howard Metzenbaum, D-Ohio, is promoting a bill to require banks to extend services to the poor and other noncustomers by cashing government checks on demand and offering low-cost basic banking services.

Mr. Gerhardstein writes for the Medill News Service.

U.S. Savings Bonds
The Great American Investment

Here's a hint:
It's not IBM.

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VOL. CLV NO. 134 Wednesday, July 11, 1990 155th year

OTS' Easing Of Loan Limit Seen as Feeble

By ROBERT M. GARSSON

WASHINGTON — For savings and loan executives looking for temporary relief from tough new limits on loans to one borrower, the regulation issued last week by the Office of Thrift Supervision came as a disappointment.

"It's like attacking homelessness by expanding the IRA program," said Palmer Hamilton, a Mobile, Ala., lawyer. "It just doesn't have much effect."

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 imposed national bank standards on the thrift industry, limiting most loans to no more than 15% of an institution's capital. An exception was made for loans for residential housing development, which could run as high as 30% of capital. Previously, thrifts had been able to lend the equivalent of 100% of capital to any one borrower.

ANALYSIS: *Follow-up on the news*

In a speech to the U.S. League of Savings Institutions on June 25, T. Timothy Ryan Jr., director of the Office of Thrift Supervision, announced that the Treasury Department had agreed to a transition rule that would give well-capitalized institutions until 1992 to meet the new standards.

Qualifiers Are Few

That was little enough: With much of the industry struggling to meet the new capital requirements, only 1,100 institutions qualify under the rule, according to OTS.

But the regulation made public last week gave a good deal less than that.

The transition rule comes down to this:

- For loans backing the development of domestic residential housing, thrifts that already meet capital requirements taking effect in 1995 get a break: between now and the end of the year, they can lend up to 60% of capital to a single borrower. Next year, such loans will be limited to 30% of an institution's capital, the amount specified in the bailout law.
- For commercial loans, there is no transition period: Credit is limited to 15% of capital.

Little Benefit Seen

"I don't know what good this will do anyone," said David Danovitch, regulatory counsel to the National Council of Savings Institutions. Mr. Danovitch expressed surprise that the transition rule did not cover assets other than loans for residential

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A REALTY RECESSION that is starting to plague Britain also threatens to mire U.S. and other bank lenders. *Page 18*

FINANCE

WHAT SOURED the 1987 merger of First Fidelity with Fidelcor Inc.? Though analysts gave the combination rave reviews, chief executive officer Harold Pote was forced to resign just 16 months later. *Page 25*

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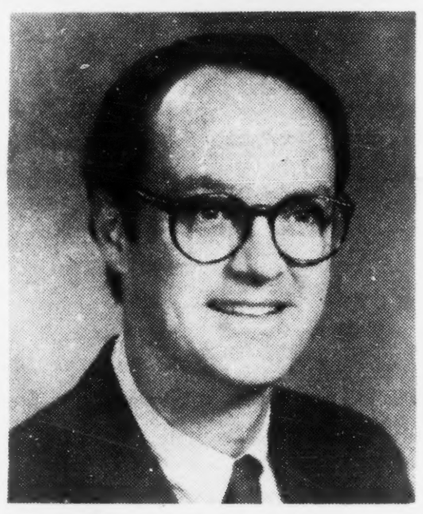
PRESCREENING mailing lists of credit prospects has proven controversial. Opponents cite loss of privacy, but advocates say credit opportunities are enhanced. *Page 8*

TECHNOLOGY



MARSHALL N. CARTER of Chase Manhattan says U.S. banks are coming to view the Pacific Basin as a hotbed for securities processing services, as foreign investors pour more funds into the region. *Page 10*

DESPITE BIG INCREASES in use of automated tellers to get cash, banks are not realizing the volume increases on their proprietary networks that would save money, Speer & Associates has found. *Page 3*

PEOPLE

BEING TOP COP of the Justice Department's special task force on bank and thrift fraud has thrust James G. Richmond into the spotlight of national outrage over the savings and loan crisis, which was partly caused by fraud. *Page 2*

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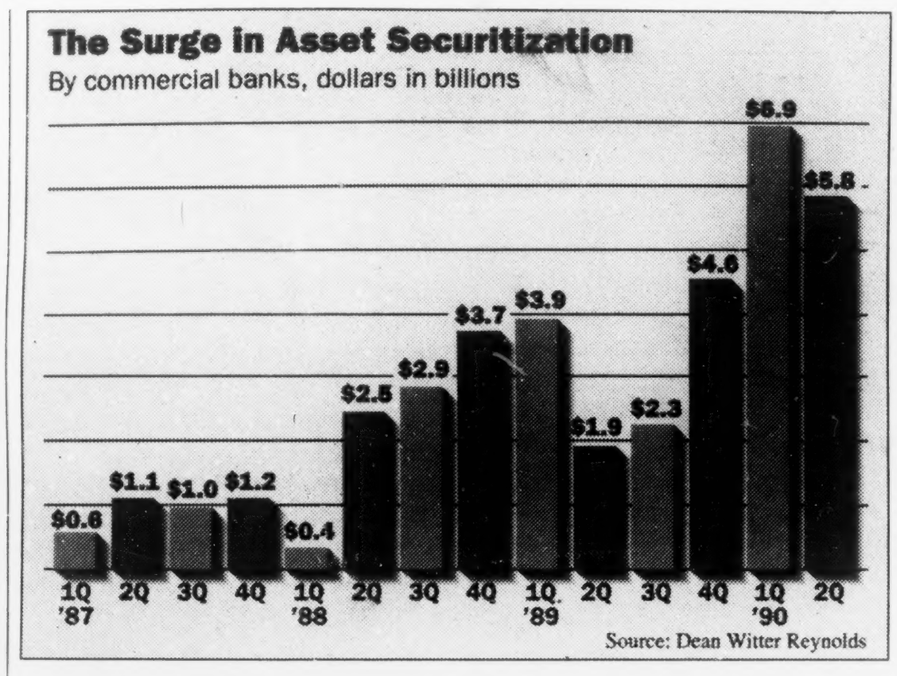

Banks Rushing to Securitize Assets, But Analysts Fear Long-Term Harm

By KELLEY HOLLAND

If a bank asset isn't nailed down these days, it may well be on the way to being securitized.

A market created five years ago when auto loans were first securitized has exploded as banks rush to issue securities backed by assets ranging from credit card receivables to recreational vehicle loans.

In the first half of this year, banks securitized $12.8 billion of their assets, compared with $5.9 billion during the first six months of last year.

Banks Are Big Players

Banks have issued 48.1% of the $82 billion in nonmortgage assets securitized in recent years and are increasingly finding willing buyers among pension funds and mutual funds holding corporate bonds.

Behind the rush by banks to this growing market is their need to pump up capital ratios. Securitizing takes the assets off their books, immediately increasing banks' financial ratios and reducing their need for capital.

But longer-term, analysts and capital markets specialists say, securitization may make it harder for banks to raise capital to fund the less-desirable assets they will have left on their books.

"Banks are securitizing their best assets," said one analyst.

See **CAPITAL** *page* **32**

OTS to Seek Bids Before Seizing Sick Institutions

By DEBRA COPE

WASHINGTON — Moving ahead with a plan to sell troubled thrifts before they become unattractive to potential acquirers, the Resolution Trust Corp. board on Tuesday authorized the Office of Thrift Supervision to line up buyers before seizing the institutions.

OTS officials said they will select eight to 12 institutions for a 90-day test of the accelerated resolution program. If the procedure succeeds, up to 70% of 299 thrifts with $193 billion in assets that the OTS has identified as most likely to fail could be sold without being placed in RTC conservatorship, according to William Roelle, director of RTC's resolutions and operations division.

3-4 Months for Results

"At the end of three or four months, we should know definitively if this program will work," OTS Director T. Timothy Ryan Jr. said in an interview. "We're all enthusiastic about the prospects for success."

Mr. Ryan, who sits on the RTC board, said he envisions

See **RTC** *page* **21**

Norwest, United Of Colorado Talking Merger

Norwest Corp. and United Banks of Colorado Inc. announced late Thursday afternoon that they were discussing a possible merger.

"There is no definitive agreement, and there is no assurance that any such agreement will be reached," according to the two-sentence statement.

Company Would Be in Top 20

A merger between the two holding companies would be one of the biggest ever in banking, creating the nation's 20th-largest.

Norwest, an eight-state superregional based in Minneapolis, now ranks 30th, with $24.33 billion in assets. Denver-based United Banks is Colorado's largest holding company and the 81st-largest in the United States. It owns 40 banks in Colorado and has $6.08 billion in assets.

The announcement came after the stock market closed. Nor-

See **NORWEST** *page* **20**

Insiders Are Snapping Up Bank Stocks
Second quarter purchases by officers and directors

Company	Shares purchased	Buyers	Average price	Price at 3 p.m. Tuesday
First Bank System Minneapolis	43,590	10	$15.25	$14.75
SouthTrust Birmingham	26,230	5	$17.00	$17.375
CoreStates Financial Philadelphia	6,500	3	$37.375	$40.25
Comerica Detroit	4,180	10	$43.00	$45.25
First Interstate Los Angeles	4,000	3	$37.375	$39.375

Source: Invest/Net

Though Bank Shares Are Down, Insiders Are Buying Vigorously

By GORDON MATTHEWS

NEW YORK — With most investors running away from bank stocks these days, it sometimes seems that the only buyers willing to step forward are the banks' own officers and directors. And they have been active buyers, indeed.

In June, for instance, 10 insiders at First Bank System, including the new chief executive officer, John F. Grundhofer, spent nearly $665,000 to acquire 43,590 shares of its stock.

In May, five insiders of Southtrust Corp., Birmingham, Ala., acquired 26,230 shares for $445,910. The largest buyer, director Raymond J. Harbert, purchased 15,000 shares.

Stocks Have Plunged

Also in May, 10 officers and directors of Comerica Inc., bought 4,180 shares for $161,250. Insider buying at the

See **STOCKS** *page* **32**

COMMENT/ *By Charles H. Nobs and Eleni Istavridis*

Cost Leadership Gives Competitive Edge

While New York City may not always be an accurate barometer for the state of the national economy, today's city conditions pose an interesting metaphor for the banking industry.

Manhattan employment is down in both manufacturing and service sectors. Real estate markets are in a slump. Opportunities to raise tax revenues are evaporating, and embedded costs are uncompetitively high.

This is particularly relevant to financial firms based in new York, where the health of the city and the financial-services sector are so closely related. Cities and industries alike can be ripe candidates for restructuring.

Forecast for the '90s

Certainly, the 1980s showed that cost leadership is key to success in any restructured setting. Whether the restructured corporate environment is steel, electronics, automobiles, airlines, computers, or telecommunications, market leadership is invariably associated today with those firms that managed their cost profiles with the greatest finesse and foresight.

Just as these industries underwent a sea change in the past decade, so too will a combined banking and securities industry be restructured in the 1990s.

Stratification trends in returns to shareholders, market valuations, and market share are predestining the fortunes of most banks. Analysis by IDC Financial Publishing shows that banks with better credit quality and better cost control over the 1984-89 time frame achieved stronger investment returns than those institutions with less favorable credit and cost performance.

Market Capitalization

Research by First Manhattan Consulting Group shows that banks with "strong" expense performance have stock prices that are 60% or more higher than if they had "average" performance. Studies by McKinsey & Co. show that superregional banks increased their average market capitalization almost seven times during 1982-88.

This far outdistanced multinationals, who increased their capitalization less than two times. Regionals also increased their market share of total bank deposits, according to McKinsey, while money-center and community banks lost ground.

"Market leadership is invariably associated today with those firms that managed their cost profiles with the greatest finesse and foresight."

Thus the gap between the "strong" and "less so" is well established and growing. A fundamental reshaping of the banking industry has already begun and will accelerate. To exert cost leadership, knowledge about the relevant competitive universe must be gained and details about relevant competitors' costs must be learned.

Factors such as the growing strength of superregionals and availability of foreign capital will eventually affect most aspects of retail and wholesale banking. These considerations will alter scale economies, pricing latitude, and technology strategies for many financial products, rendering them fundamentally unattractive for all but those bank providers whose size and business mix have been rationalized along the new competitive lines.

Expense or Investment?

Part of this rationalization process involves a strong differentiation between expense and investment. Since expense is most often defined by the existing, rather than future, culture, it must be rigorously questioned. Moreover, expense must be made variable to the greatest practical degree, thereby allowing changes in business and transaction volume to be met with expense growth or decline.

Examples include incentive-based compensation across various job classifications, use of contract and temporary workers where feasible, flexible benefits programs, profit sharing rather than guaranteed savings plans, and outsourcing a broad range of bank service activities.

The contracting-out of nonstrategic bank services, often

See **COST** *page* **9**

Mr. Nobs is senior vice president and department head for corporate operating services at Bankers Trust Co. Ms. Istavridis is senior vice president for corporate services control and administration at Bankers Trust.

GRAPEVINE/ *By Jed Horowitz*

Ties that Bind. Money-center bank executives these days are quick to speak about the theoretical benefits of mergers, but few have spoken of actual combinations or hard numbers.

One who has not shied away from getting specific, however, is Manufacturers Hanover Corp.'s president, Thomas Johnson.

At a meeting with institutional investors, he said that a combination of any two of the following New York branch-system banks could lead to incremental annual earnings of between $400 million and $700 million for the merged institution: Chemical Banking Corp., Chase Manhattan Corp., Bank of New York Co., and Hanover.

Mr. Johnson's company, meanwhile, may try to "unlock hidden values" on its own, a Merrill Lynch & Co. analyst, Judah Kraushaar, wrote in a recent report. Manny Hanny may eventually unload its Park Avenue headquarters building, which the company values at between $500 million and $750 million, and it is likely to sell entire business lines overseas.

* * *

Chasing the Reorganization. Chase Manhattan Corp. has reassigned a number of executives after dissolving its tripartite global-individual-institutional structure. The most dramatic shift is of Hughlyn F. Fierce, believed to be Chase's highest ranking black executive. Mr. Fierce, who was head of the Asia-Pacific corporate finance unit, is now to run a unit that markets retail bank products to municipal and state governments in New York City, Westchester County north of the city, and Long Island.

Mr. Fierce's former domain has been combined with the Japanese corporate finance unit under Timothy McGinnis, head of the Japan unit.

Chase also bestowed new responsibility on Michael F. Dacey, head of North American corporate finance. With the transfer of vice chairmen Richard Boyle and Robert Douglas to nonline duties, Mr. Dacey has full responsibility for Chase Securities, Chase Municipal Securities, Chase Leasing, and domestic institutional banking services.

Robert D. Hunter added Chase Home Mortgage Corp. to his national financial services empire. Donald Boudreau, head of the metropolitan community bank, also now oversees Chase's regional bank franchise.

* * *

The Fizz Is Gone. It's not just money-center banks that are curtailing their corporate finance and investment banking ambitions. The sharp downturn in corporate finance activity also is affecting regional banks.

With each passing month, the membership rolls of the Bankers Association for Corporate Finance – a group of regional bankers who aspired to be on the cutting edge in mergers and acquisitions, private placements, and other investment banking areas – are dwindling. The group was founded a few years ago by about 30 bankers who meet twice a year to share ideas and plans.

Recent Refugees

Among the most recent refugees from the group are bankers at First Fidelity Bankcorp's Fidelity Bank and NCNB Corp.'s North Carolina bank.

The three principals of Fidelity's investment banking group – Mark DeNino, Leslie Brun, and Jai Bowers – left recently to join CMS Cos., a Philadelphia-based personal investment banking firm. Mr. DeNino, who would not comment on the departure, said the trio continues to offer M&A and private-placement services to middle-market customers.

Investment Banking Mandates

A First Fidelity spokesman said that Stephen H. Clark, who heads the bank's asset sales units, has picked up the group's investment banking mandates.

At NCNB, veteran banker J.G. Richards Roddey – who has run the bank's corporate finance activities for over 10 years – moved last month to London.

"Either congratulations or condolences are in order," joked Mr. Roddey, 53, an NCNB managing director and founding member of the Bankers Association group. In London, he is overseeing NCNB Corp.'s two British-based branches and coordinating activities with NCNB's British merchant bank and its broker-dealer, Panmure Gordon & Co.

His U.S. domain is being split between managing directors Richard Gross, who will run corporate finance activities, and Richard Robb, who will be in charge of domestic mergers and acquisitions.

* * *

Guten Morgan. When J.P. Morgan & Co. set up a group to develop government and business contacts in eastern Europe in May, it targeted privatization and debt restructuring for the nascent democratic governments in the region as an initial goal for the group. Debt restructuring was a natural since the group reports to Rodney Wagner, Morgan's veteran negotiator on Third World debt.

It turns out that Morgan also has an ace in the hole when it comes to privatization. Detlev Rohwedder, a member of the advisory board of its German bank subsidiary – J.P. Morgan GmbH – has just been named chairman of Treuhandanstalt, a trust that Morgan says owns most of East Germany's industrial companies and is charged with privatizing them. Herr Rohwedder also is chairman of Hoesch, the West German steel and engineering conglomerate.

* * *

Hong Kong Bound. State Street Bank and Trust Co. won permission from the Federal Reserve Board late last month to convert a Hong Kong-based depository trust subsidiary to a full branch.

An official at the Boston-based bank company said the conversion will allow the State Street Boston Corp. unit to expand its foreign-exchange trading activities, since the branch can tap the capital of its parent company. The conversion still awaits approval from Hong Kong authorities.

Although many foreign companies are fretting about the return of the British territory to China in 1997, State Street sees Hong Kong – where it employs about 100 people – as a vital part of its expansion into the Far East. Earlier this year, it announced plans to buy Wells Fargo & Co.'s Tokyo branch. The $10 billion-asset State Street specializes in securities custody and asset management. □

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STOCKS

Though Bank Shares Are Down, Insiders Are Buying Vigorously

Continued from *page* 1

Detroit banking company has been high for several months.

Banks and thrift institutions, whose stocks have plunged since last fall on fears of loan problems and lower profits, lead all groups of publicly traded companies in insider stock acquisitions during the past year, according to Robert Gabele, president of Invest/Net, a Miami firm that tracks such activity.

"The buying has continued all the way down," Mr. Gabele said on Tuesday. "The fact that they're still buying at the lower levels has to be seen as a vote of confidence for the industry.

Buying Despite Uncertainties

"There are a lot of uncertainties out there for the bank, but you have to say that there are people at the banks stepping up to plate," he noted.

The trend goes beyond bank stocks that have been heavily sold by regular investors, and includes some that are well-liked on Wall Street and have fallen far less than others in the industry.

At Corestates Financial Corp., Philadelphia, a favorite of many banking analysts, three directors recently purchased 6,500 shares for $178,750.

Thrift Stocks Favorites

Thrift stocks, shunned by many, are also insider favorites. Mr. Gabele said that Dime Savings Bank of New York; Greater New York Savings Bank; Coast Savings Financial Corp., Los Angeles; and Conservative Savings Bank, Omaha, Neb., have been among the leaders in inside buying in the past six months.

At First Bank System, the heavy buying activity — 43,590 shares at an average cost of $15.25 per share — is viewed as a sign that top managers at the Minneapolis company feel restructuring at the long-troubled company is complete and that they believe the stock will appreciate significantly in the future.

Analysts Neutral

But most Wall Street analysts are decidedly neutral of the stock, noting that it already trades at a premium to other regional banks. The stock was off 12 cents to $14.875 in midday trading on Tuesday.

Analysts take a wait-and-see attitude on First Bank System's revised business strategy and anticipate up to 10% dilution of earnings per share through next year, after the company's recent recapitalization with a $175 million private placement of common stock.

"In general, turnarounds in 1990 may be more difficult to engineer than those of the early 1980s," Kristina E. Andersson, a bank analyst at Kidder, Peabody & Co., noted in a recent report on the company.

Some analysts said the large amount of insider buying may have been a show of faith in the company following the private placement, which was taken by Corporate Partners, an investment group, and the State Board Administration of Florida.

A spokeswoman at First Bank System declined to comment on that possibility.

A leading inside buyer at the company last month was Mr. Grundhofer, the new chairman and chief executive officer. He purchased 10,000 shares.

Mr. Grundhofer, who joined the company on Jan. 30 after a career in California at Wells Fargo & Co. and Union Bank, made his purchase on a single day, June 21. He paid $14.50 per share for a total investment of $145,000.

The June acquisitions were substantial enough to increase by 11.5% the amount of stock owned by officers and directors of the banking company, as reported last Feb. 1.

Selling Drives Stocks Down

Late afternoon selling drove bank stocks sharply lower Tuesday. One analyst said there were late rumors that another analyst would issue a report that he was more bearish about banks than he had been previously. However, most said they were at a loss to explain the late drop beyond that banks followed the overall market, which turned sharply lower late in the day.

Bankers Trust New York Corp. lead money center banks, falling $1.125 to $39.75. Manufacturers Hanover Corp. was off 87.5 cents to $32.625. Chemical Banking Corp. was off 75 cents to $24.75. Bank of New York, Chase Manhattan Corp. and Citicorp were also lower, although not as severely.

The Dow Jones Industrial average, after being off about 13, fell 10 points in the last 30 minutes of trading to end the day at 2890.84, down 23.27. □

CAPITAL

Banks Rushing to Securitize Their Assets

Continued from *page* 1

"Isn't that eventually going to make it harder for banks to sell stock and debt?"

In a single week in June, banks issued $2.8 billion in securities backed by credit card receivables. And Norwest Corp. securitized $95 million in manufactured home loans.

"The asset-backed market is really developing into the fourth leg of a chair: governments, corporates, mortgages and now asset-backeds," said Stephen A. Candland, senior vice president at Dean Witter Reynolds Inc.

Deals Marketed Globally

Recently, the market has spread beyond the United States. Citicorp has taken the lead, issuing billions of dollars in securities backed by credit cards from subsidiaries called global credit card trusts.

European banks are also starting to securitize assets. Swiss Bank Corp. recently issued $500 million in securities backed by automobile loans, for example.

By taking the assets off their books, banks raise their equity-to-assets ratios and their return on assets. Equally important, they continue to earn the difference between the yield on the asset and the cost of funding it, and they are able to take the tax deduction for the interest expense associated with the securitization.

Raising return on assets makes a bank appear more profitable, and more appealing to current and potential investors, according to Jack J. Ross, a director at Merrill Lynch Capital Markets.

"They have improved their risk profile by securitizing those assets," he said. Banks "still retain the earnings benefit of those assets, even though they're off balance sheet."

As for investors, portfolio managers of trust accounts and corporate bond funds are eager for high-grade securities, such as asset-backeds, with yields above Treasuries, according to Alan F. Bembenek, an analyst at Fidelity Management and Research Co.

"I think you're going to see a continuation of large issues coming to market," he said.

But some capital markets specialists and analysts question the long-term implications. If a bank transfers all its best assets off its balance sheet, investors in that bank's debt and equity may balk at the notion of financing only that bank's lower-quality assets, they say.

"For a bank with problems in other areas of its loan portfolio, securitization would affect the receptiveness of investors to its securities," William King, a bank bond analyst at Merrill Lynch Capital Markets. "For less than top-quality banks, securitizing leaves their real estate loan portfolios looming larger and larger."

Mr. Bembenek agreed. "Once those assets are removed from the balance sheet, what's left is relatively unattractive," he said.

Several banks have been particularly aggressive in securitizing assets. Citicorp has been the biggest issuer, but MNC Financial Inc., First Chicago Corp., Chemical Banking Corp., Security Pacific Corp., BankAmerica Corp., and Hongkong & Shanghai Banking Corp.'s subsidiary Marine Midland Bank have all been major players in the asset backed securities market.

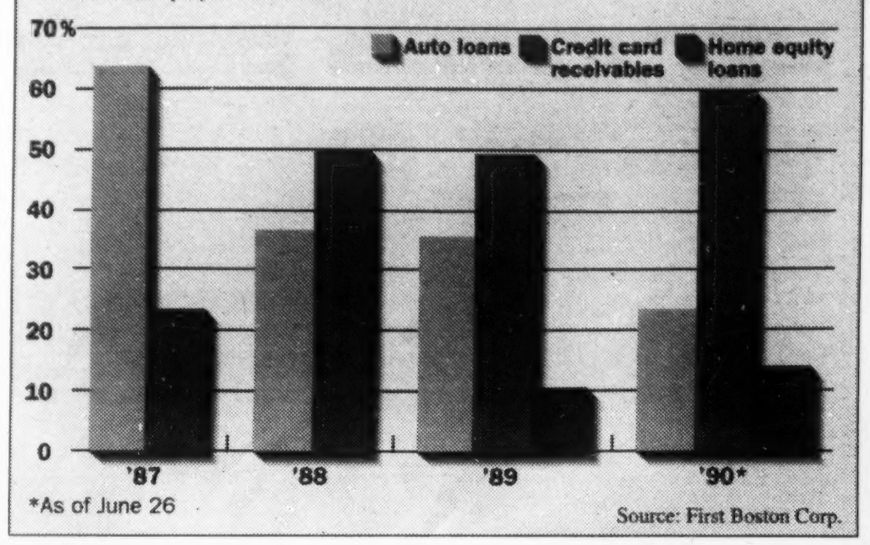
And banks are having to pay less in fees to underwriters as competition heats up for the business and underwriting presence in asset-backeds shifts. First Boston dominated the market in its early years.

But Merrill Lynch Capital Markets is making inroads. In 1990, Merrill has underwritten 20% of the asset-backed issuance, compared with First Boston's 26%.

Automobile loans and equipment leases were the collateral used most often in the market's early years. But credit card receivables began to be used in 1987, and they now back 42% of the asset-backed securities in the market. Home equity loans, boat loans, time-share loans, and recreational vehicle loans have all been used for collateral, and securities backed by other assets, such as commercial loans, are reportedly in the offing. □

A Bigger Role for Credit Cards

Changing mix in the asset securitization market, as a percentage of the total paper issued



*As of June 26

Source: First Boston Corp.

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FINANCIAL TECHNOLOGY UPDATE

NCR in the '90s:
helping you manage change

The fiercely competitive decade which lies ahead will bring unprecedented challenges to the banking industry, and therefore unprecedented technology, designed to meet those challenges.

In an era when banks must reduce the cost of delivery while increasing its quality, managing information technology has become the single most powerful factor for success in banking. In retail banking for example, service, sales and office automation must be integrated into a single retail delivery system that can accommodate the inevitable changes of technology.

NCR has evolved a long-term strategy to enable its customers to take full advantage of these changes. It's called "Open, Cooperative Computing. The Strategy For Managing Change." It means providing customers with a vendor-neutral computing environment based on open industry standards, allowing information resources to interoperate enterprise-wide as one integrated system, and in a way that is easy to use.

Simply put, NCR's delivery systems will seamlessly integrate customers' systems, networks and software from multiple vendors into a single, flexible solution.

This long-term strategy, which began in 1981 with a commitment to open systems, has positioned NCR as the only company with the products, global presence and financial clout to deliver its advantages to the end-users.

For example, Integrated Retail Delivery Systems (IRDS) will allow customers to deliver new products in new ways. Self-Service Automation will continue to help the branch to focus on cost reduction while freeing up branch personnel for cross-selling efforts. New NCR Image solutions will help create new productivity in document management, item processing and office information systems.

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